



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

B53802

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)


November 21, 2019

Board of Trustees  
Putnam County Hospital  
1542 S. Bloomington St.  
Greencastle, IN 46135

We have reviewed the audit report of Putnam County Hospital, which was opined upon by Blue and Co., LLC, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. Per the *Report of Independent Auditors*, due to inadequacy of accounting records for the period December 31, 2016, Blue and Co., LLC, was unable to obtain sufficient appropriate audit evidence to provide a basis for an opinion and accordingly did not express an opinion on the financial statements. Please refer to the Basis for Disclaimer of Opinion paragraph of the *Report of Independent Auditors* on Page 1 for further detail.

In our opinion, the report was prepared in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

  
Paul D. Joyce, CPA  
State Examiner



**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2016**

*CPAs / ADVISORS*



**PUTNAM COUNTY HOSPITAL**

TABLE OF CONTENTS  
DECEMBER 31, 2016

---

	Page
<b>Report of Independent Auditors</b> .....	1
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis (Unaudited) .....	MDA - i
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheet .....	3
Consolidated Statement of Revenues, Expenses and Changes in Net Position .....	4
Consolidated Statement of Cash Flows .....	5
Notes to Consolidated Financial Statements .....	7

---



Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Putnam County Hospital  
Greencastle, Indiana

We were engaged to audit the accompanying consolidated financial statements of Putnam County Hospital (the Hospital), a component unit of Putnam County, as of and for the year ended December 31, 2016, and the related notes to the consolidated financial statements, which collectively comprise the Hospital's basic consolidated financial statements as listed in the accompanying table of contents.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for Disclaimer of Opinion

Detailed records have not been maintained and certain prior year records and supporting data were not available for audit. Therefore, we were not able to obtain sufficient and appropriate audit evidence about the amounts at which certain assets and liabilities related to the Hospital's long-term care services are recorded in the accompanying consolidated balance sheet as of December 31, 2016 (current assets stated at approximately \$20,315,000, net capital assets stated at \$1,959,000, other assets stated at \$784,000 and current liabilities stated at \$23,058,000) and the amounts of operating revenues (stated at \$118,415,000) and operating expenses (stated at \$109,415,000) for the year then ended.

### Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for our opinion. Accordingly, we do not express an opinion on the consolidated financial statements referred to in the first paragraph.

Board of Trustees  
Putnam County Hospital  
Greencastle, Indiana

Emphasis of Matter - Restatement

As discussed in Note 2 to the consolidated financial statements, the opening balances of certain assets, liabilities and net position as of January 1, 2016 were restated to correct misstatements related to patient accounts receivable, accounts payable, accrued salaries, wages, and related liabilities, estimated third-party settlements, and the inclusion of a blended component unit. Our disclaimer of opinion is not modified with respect to these matters.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 3 to the consolidated financial statements in 2016, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our disclaimer of opinion is not modified with respect to these matters.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the insufficiency of the accounting records, as discussed in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

**Blue & Co., LLC**

Indianapolis, Indiana  
October 21, 2019

**REQUIRED SUPPLEMENTARY INFORMATION**

# PUTNAM COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016

---

This section of Putnam County Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance. This MD&A also includes the Hospital's blended component unit, Putnam County Pain Management Center, LLC. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### **Financial Highlights**

- The Hospital restated its beginning net position as of January 1, 2016 by approximately \$1,058,000 for errors related to the misstatement of certain assets and liabilities in prior years.
- The Hospital's total assets increased approximately \$1,416,000 or 2.4% during 2016. Total liabilities decreased \$1,645,000 or 3.6% during 2016. The Hospital's net position increased \$3,061,000 or 22.4% in 2016.
- The Hospital reported operating income of approximately \$3,608,000 for 2016, representing a decrease of \$318,000 in comparison to the 2015 results.
- The Hospital added capital assets of approximately \$2,979,000 during 2016. Net additions and combined with depreciation expense of \$2,286,000 resulted in net capital assets increasing \$693,000 from 2015.

### **Using This Annual Report**

The Hospital's consolidated financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These consolidated financial statements and related notes provide information about the activities and the financial position of the Hospital.

The consolidated balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year revenue earned and expenses incurred are accounted for in the consolidated statement of revenues, expenses and changes in net position.

Finally, the purpose of the consolidated statement of cash flows is to provide information about the Hospital's cash flows from operating activities, noncapital financing activities, capital and related financing activities, including capital additions, and investing activities. This statement provides information on the sources and uses of cash and cash equivalents and the change in cash and cash equivalents balances during the year.

# PUTNAM COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016

### The Consolidated Balance Sheet and Consolidated Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The consolidated balance sheet and the consolidated statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's net position is the difference between assets and deferred outflows (if applicable) and liabilities and deferred inflows (if applicable). It is one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Table 1 – Consolidated Balance Sheets

	2016	Restated 2015	Change
<b>Assets</b>			
Current assets	\$ 43,757,131	\$ 43,062,877	\$ 694,254
Assets whose use is limited	238,380	188,469	49,911
Capital assets, net	16,352,002	15,658,910	693,092
Other assets	783,947	804,739	(20,792)
Total assets	<u>\$ 61,131,460</u>	<u>\$ 59,714,995</u>	<u>\$ 1,416,465</u>
<b>Liabilities</b>			
Current liabilities	\$ 34,422,668	\$ 35,541,639	\$ (1,118,971)
Long-term liabilities	9,996,808	10,522,556	(525,748)
Total liabilities	<u>44,419,476</u>	<u>46,064,195</u>	<u>(1,644,719)</u>
<b>Net position</b>			
Net investment in capital assets	4,631,529	3,851,730	779,799
Restricted	278,519	166,423	112,096
Unrestricted	11,801,936	9,632,647	2,169,289
Total net position	<u>16,711,984</u>	<u>13,650,800</u>	<u>3,061,184</u>
Total liabilities and net position	<u>\$ 61,131,460</u>	<u>\$ 59,714,995</u>	<u>\$ 1,416,465</u>



# PUTNAM COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016

Total assets increased approximately \$1,416,000 during 2016. The significant changes in the Hospital's assets were in capital assets with an increase of \$693,000 mainly related to asset purchases during the year. Total liabilities decreased by \$1,645,000 in 2016. The significant changes included an increase in the Hospital's line of credit of \$4,396,000 offset by net decreases in accounts payable, accrued expenses and other current liabilities. Net position increased by \$3,061,000 from 2015 to 2016. The increase relates to operating income of \$3,608,000 in 2016 offset by nonoperating revenues (expenses), mainly interest expense, of \$547,000.

Table 2 – Consolidated Statements of Revenues, Expenses and Changes in Net Position

	2016	Restated 2015	Change
<b>Operating revenues</b>			
Net patient service revenue	\$ 159,503,380	\$ 124,296,764	\$ 35,206,616
Rental income	485,682	356,317	129,365
Other operating revenue	1,529,874	1,022,148	507,726
Total operating revenues	161,518,936	125,675,229	35,843,707
<b>Operating expenses</b>			
Salaries, wages and benefits	21,288,424	18,430,383	2,858,041
Professional fees and contract services	101,623,492	76,804,562	24,818,930
Supplies	17,176,770	12,154,386	5,022,384
Depreciation	2,285,695	2,250,636	35,059
Other	15,536,482	12,109,272	3,427,210
Total operating expenses	157,910,863	121,749,239	36,161,624
Operating income	3,608,073	3,925,990	(317,917)
<b>Nonoperating revenues (expenses)</b>	(546,889)	(539,080)	(7,809)
Change in net position	3,061,184	3,386,910	(325,726)
<b>Net position</b>			
Beginning of year	13,650,800	11,322,337	2,328,463
End of year	\$ 16,711,984	14,709,247	2,002,737
Restatement adjustments		(1,058,447)	1,058,447
End of year, restated		\$ 13,650,800	\$ 3,061,184

The Hospital's performance in 2016 was favorable with a positive return on equity of 22.4% compared to prior year of positive return of 29.9%. The decrease in operating income is the result of expenses increasing approximately \$36,162,000 compared to an increase in revenue of \$35,844,000 for 2016.

Total operating revenue increased approximately \$35,844,000 mainly related to long-term care services. Net patient service revenue accounted for \$35,207,000 of the increase in 2016.

Expenses increased by approximately \$36,162,000 between 2016 and 2015. Salaries, wages and benefits increased by \$2,858,000 mainly due to additional staffing. Professional fees and contract services increased by \$24,819,000 over 2015, mainly due to long-term care services.

**PUTNAM COUNTY HOSPITAL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2016

---

Table 3 – Consolidated Statements of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balances during the reporting period?"

Cash flows data	2016	2015	Change
From operating activities	\$ 8,911,213	\$ 8,498,873	\$ 412,340
From capital and related financing activities	735,050	(770,901)	1,505,951
From investing activities	(127)	22,099	(22,226)
Change in cash and cash equivalents	<u>\$ 9,646,136</u>	<u>\$ 7,750,071</u>	<u>\$ 1,896,065</u>

Note: The consolidated statement of cash flows for 2015 was not restated as it was not practical to determine the effect.

Total cash and cash equivalents increased approximately \$9,646,000 in 2016. Operating activities increased cash and cash equivalents by \$8,911,000 during 2016 mainly from the gain from operations and reduction in other current assets. Capital and related financing increased cash and cash equivalents by \$735,000 during 2016 mainly as the result of draws on the line of credit which exceeded principal payments on long-term debt and property acquisitions.

Cash and cash equivalents increased approximately \$7,750,000 in 2015 due mainly to operating activities of \$8,499,000 providing a source of cash and cash equivalents offset by capital and related financing activities using \$771,000 of cash and cash equivalents.

**Capital Assets**

The change in capital assets is outlined in the following table:

	2016	Restated 2015	Change
Land	\$ 159,363	\$ 159,363	\$ -0-
Land improvements	329,844	298,403	31,441
Buildings and improvements	33,145,669	30,814,537	2,331,132
Equipment	21,911,547	21,280,016	631,531
Construction in process	276,683	292,000	(15,317)
	<u>55,823,106</u>	<u>52,844,319</u>	<u>2,978,787</u>
Less accumulated depreciation	39,471,104	37,185,409	2,285,695
Capital assets, net	<u>\$ 16,352,002</u>	<u>\$ 15,658,910</u>	<u>\$ 693,092</u>

During 2016, the Hospital invested approximately \$2,979,000 in capital assets compared to approximately \$1,136,000 in 2015. Please refer to the notes to the consolidated financial statements for more detailed information on capital assets.

# PUTNAM COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016

---

### **Debt**

Total long-term debt and capital lease obligations (including current portions) decreased from approximately \$11,807,000 to \$11,720,000 in 2016. The primary reason for the decrease in long term debt and capital lease obligations was principal payments made during the year. The Hospital's outstanding balance on its line of credit was \$6,444,000 as of December 31, 2016 which was an increase of \$4,396,000 from the end of 2015. The line of credit was paid in full in January 2017. More detailed information about the Hospital's long-term debt, capital lease obligations and line of credit is presented in the notes to the consolidated financial statements.

### **Sources of Revenue**

During 2016, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 55% and 56% of the Hospital's gross revenues in 2016 and 2015, respectively. The remaining payors include commercial and self-pay.

### **Economic Outlook**

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers. Uncompensated care is also a significant factor on the Hospital's margin.

### **Contacting Hospital Management**

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 1542 South Bloomington Street, Greencastle, Indiana 46135.

**PUTNAM COUNTY HOSPITAL**

**CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2016**

---

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 21,544,602
Patient accounts receivable, less allowance for uncollectible accounts of \$6,051,117	16,479,454
Estimated third-party settlements	442,480
Inventory	1,085,082
Prepays and other current assets	4,205,513
Total current assets	<u>43,757,131</u>

**Assets whose use is limited**

Internally designated	42,183
Donor restricted	196,197
Total assets whose use is limited	<u>238,380</u>

**Capital assets, net**

16,352,002

**Other assets**

783,947

Total assets \$ 61,131,460

**LIABILITIES AND NET POSITION**

**Current liabilities**

Line of credit	\$ 6,444,350
Current portion of long-term debt	1,384,811
Current portion of capital lease obligations	338,854
Accounts payable	7,625,199
Accrued salaries, wages, and related liabilities	4,575,764
Accrued expenses and other current liabilities	14,053,690
Total current liabilities	<u>34,422,668</u>

**Long-term debt, less current portion**

8,997,242

**Capital lease obligations, less current portion**

999,566

Total liabilities 44,419,476

**Net position**

Net investment in capital assets	4,631,529
Restricted	
Non-expendable	82,322
Donor restricted - expendable	196,197
Total restricted	<u>278,519</u>
Unrestricted	<u>11,801,936</u>
Total net position	<u>16,711,984</u>
Total liabilities and net position	<u>\$ 61,131,460</u>

---

See accompanying notes to consolidated financial statements.

**PUTNAM COUNTY HOSPITAL**

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2016

---

**Operating revenues**

Net patient service revenue	\$ 159,503,380
Rental income	485,682
Other operating revenue	<u>1,529,874</u>
Total operating revenues	161,518,936

**Operating expenses**

Salaries and wages	16,816,237
Employee benefits	4,472,187
Professional fees and contract services	101,623,492
Supplies	17,176,770
Insurance	628,594
Facility and equipment leases	11,082,274
Repairs and maintenance	921,549
Utilities	694,799
Training and education	323,734
HAF Program	546,026
Depreciation	2,285,695
Other	<u>1,339,506</u>
Total operating expenses	<u>157,910,863</u>
Operating income	3,608,073

**Nonoperating revenues (expenses)**

Interest expense	(595,448)
Investment return	1,225
Contributions	25
Other	<u>47,309</u>
Total nonoperating revenues (expenses)	<u>(546,889)</u>
Change in net position	3,061,184

**Net position**

Beginning of year, restated	<u>13,650,800</u>
End of year	<u><u>\$ 16,711,984</u></u>

---

See accompanying notes to consolidated financial statements.

**PUTNAM COUNTY HOSPITAL**

CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2016

---

**Operating activities**

Cash received from patients and third-party payors	\$ 160,940,851
Cash paid for salaries, wages and benefits	(20,064,840)
Cash paid to vendors for goods and services	(133,515,464)
Other operating receipts, net	1,550,666
Net cash flows from operating activities	<u>8,911,213</u>

**Capital and related financing activities**

Acquisition and construction of capital assets	(2,882,173)
Borrowings on line of credit	4,395,992
Proceeds from issuance of long-term debt	1,155,877
Principal paid on long-term debt and capital leases	(1,339,198)
Cash paid for interest	(595,448)
Net cash flows from capital and related financing activities	<u>735,050</u>

**Investing activities**

Investment return	1,225
Other nonoperating revenues	47,334
Purchase of investments	(48,686)
Net cash flows from investing activities	<u>(127)</u>
Net change in cash and cash equivalents	9,646,136

**Cash and cash equivalents**

Beginning of year, restated	<u>12,136,846</u>
End of year	<u><u>\$ 21,782,982</u></u>

**Reconciliation of cash and cash equivalents to the consolidated balance sheet**

Cash and cash equivalents	
In current assets	\$ 21,544,602
In assets whose use is limited	238,380
Total cash and cash equivalents	<u><u>\$ 21,782,982</u></u>

---

See accompanying notes to consolidated financial statements.

**PUTNAM COUNTY HOSPITAL**

CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2016

---

**Reconciliation of operating income to net  
cash flows from operating activities**

Operating income	\$ 3,608,073
Adjustments to reconcile operating income to net cash flows from operating activities	
Depreciation	2,285,695
Provision for bad debts	6,173,555
Changes in operating assets and liabilities	
Patient accounts receivable	(4,149,657)
Inventory and other current assets	7,854,921
Other assets	(464,890)
Accounts payable	(8,124,014)
Accrued salaries, wages, and related liabilities	1,223,584
Accrued expenses and other current liabilities	1,090,373
Estimated third-party settlements	(586,427)
Net cash flows from operating activities	<u>\$ 8,911,213</u>

**Supplemental cash flows information**

Capital assets acquired through capital leases	\$ 96,614
--	-----------

---

See accompanying notes to consolidated financial statements.

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Putnam County Hospital (the Hospital) is a county facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient, physician and long-term health care services. The Board of County Commissioners of Putnam County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between Putnam County (the County) and the Hospital. For these reasons, the Hospital is considered a component unit of the County.

The consolidated financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present the financial position of the County as of December 31, 2016 and the changes in its financial position or its cash flows for the year then ended.

Accounting principles generally accepted in the United States require that these consolidated financial statements present the Hospital and its blended component unit, collectively referred to as the "primary government." The blended component unit, as discussed below, is included in the Hospital's reporting entity because of the significance of its operational or financial relationship with the Hospital. Blended component unit, although legally separate entity, is in substance part of the primary government's operations and exists solely to provide services for the primary government; data from this unit is consolidated with data of the primary government.

#### Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital's blended component unit, Putnam County Pain Management Center, LLC (PCPMC), a separate for-profit entity, organized to support the operations of the Hospital by providing pain management services for the benefit of the greater Greencastle area and surrounding communities. The Hospital has a majority ownership (51%) in PCPMC.

All significant intercompany transactions have been eliminated in the consolidated financial statements. The separate financial statements for PCPMC may be obtained through contacting management of the Hospital.

#### Long-Term Care Operations

The Hospital leases the operations of certain long-term care facilities, by way of arrangements with managers of these facilities, which provide inpatient and therapy services. Generally, gross revenues from the operation of the long-term care facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers are on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.



# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

The Hospital entered into lease agreements with the long-term care facilities to lease the facilities managed by the respective managers. Concurrently, the Hospital entered into agreements with the managers to manage the leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements expire at various times through 2020. Generally, all parties involved can terminate the agreements without cause with 90 days written notice.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Measurement Focus and Basis of Accounting

The consolidated financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

### Cash and Cash Equivalents

Cash and cash equivalents include deposits and investments in highly liquid debt instruments with an original maturity date of 90 days or less from the date of purchase. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant credit risk on cash and cash equivalents.

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is classified as Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report for hospital-based services is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party programs. These programs have audited the year-end cost report filed with the Medicare program through the year ended December 31, 2016 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports are reflected in estimated third-party payor settlements on the consolidated balance sheet. During 2016, the Hospital recognized an increase in net position of approximately \$182,000 in the consolidated statement of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and

---

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

### Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported within the consolidated statement of revenues, expenses and changes in net position, an estimated \$487,000 arose from providing services to charity patients for 2016. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's expenses to gross patient service revenue.

### Inventory

Inventory is valued at the lower of cost or net realizable value with cost being determined on the first-in, first-out method. Inventory consists of medical supplies and pharmaceuticals.

### Other Current Assets

Other current assets consist primarily of other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2017.

### Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments restricted by donors for a specific purpose or time.

These investments consist cash and cash equivalents. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the consolidated statement of revenues, expenses and changes in net position.

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### Capital Assets and Depreciation

Capital assets, which include land and improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$1,000 per item, or a group of items with an aggregate cost of at least \$5,000. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are expenses as incurred and not capitalized.

### Net Position

The net position of the Hospital is classified into four components. (1) Net investment in capital assets represents capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted non-expendable net position includes the principal portion of permanent endowments, if any, and non-controlling interests owned by external investors. (3) Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributions external to the Hospital. (4) Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

Restricted non-expendable net position includes non-controlling interest, which represents the portion of net position that is owned by the investors who are external to and not included in the consolidated financial statements of approximately \$82,000 as of December 31, 2016. This relates to the Hospital's blended component unit, PCPMC, in which external investors have a minority, non-controlling financial interest. The total net position activity for the controlling and non-controlling portions related to PCPMC for 2016 follows:

	Controlling interest	Noncontrolling interest	Total
Balance, beginning of year	\$ 20,938	\$ 20,116	\$ 41,054
Net income	64,745	62,206	126,951
Balance, end of year	<u>\$ 85,683</u>	<u>\$ 82,322</u>	<u>\$ 168,005</u>

### Restricted Resources

The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### Consolidated Statement of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues or expenses. Operating expenses are generally all expenses incurred to provide health care services, other than interest costs.

### Grants and Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts, if any, restricted to capital acquisitions are reported as nonoperating revenues and expenses.

### Advertising and Community Relations

The Hospital expenses advertising and community relations costs as they are incurred. Total expense for 2016 was approximately \$151,000.

### Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused vacation is reported as a liability within the accrued salaries, wages, and related liabilities on the consolidated balance sheet.

### Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes and, accordingly, is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

PCPMC is a limited liability company and profits and losses are passed through to the members. PCPMC has filed its federal and state income tax returns for periods through December 31, 2016. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and its component unit and recognize a tax liability if the Hospital or its component unit have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and its component unit and has concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements.

### Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

### Medical Malpractice

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 in the annual aggregate) until June 30, 2019. Starting July 1, 2019, the Act will require the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for general liability and employee medical claims.

### Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with the Hospital's legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future consolidated financial position, results from operations, and cash flows.

---

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is October 21, 2019.

### Recently Issued Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities*, which will be effective for periods beginning after December 15, 2018. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus 2017*, will be effective for periods beginning after June 15, 2017. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

In March 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which will be for effective for periods beginning after June 15, 2018. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for periods beginning after December 15, 2019. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The Hospital is presently evaluating the impact of these standards on its future consolidated financial statements.

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### 2. RESTATEMENT

The Hospital's assets and liabilities have been restated as of January 1, 2016 to include balances associated with long-term care activities. As the Hospital leases the operations of certain long-term care facilities, the assets and liabilities associated with the long-term care activities were not included in the Hospital's consolidated financial statements as of January 1, 2016. The following is a summary of assets and liabilities related to the Hospital's long-term care activities which is also included in the restatement table at the end of this note.

Assets	
Cash and cash equivalents	\$ 4,469,808
Patient accounts receivable	13,766,087
Other current assets	9,280,864
Capital assets	1,327,303
Other assets	<u>778,868</u>
Total assets	<u>\$ 29,622,930</u>
Liabilities	
Accounts payable	\$ 14,866,721
Accrued salaries and wages	1,866,212
Accrued expenses and other liabilities	<u>12,889,997</u>
Total liabilities	<u>\$ 29,622,930</u>

The Hospital's net position as of January 1, 2016, has been restated to reflect a correction in the Hospital's recorded net realizable value of patient services accounts receivable and net patient service revenue. As a result of management's review of its methodology to estimate the net realization of patient accounts receivable, management determined that valuation allowances did not sufficiently incorporate historical collections against certain patient charges. The net realizable value of the Hospital's patient accounts receivable was overstated by approximately \$1,250,000 as of January 1, 2016.

Management reviewed of its methodology for the estimates of incurred but not reported (IBNR) claims for self-fund health insurance, estimated third-party settlements and certain accounts payable. Management determined that the original IBNR accrual did not sufficiently incorporate historical payments and timing of those payments in relation to when the claims were incurred. Management also determined historical data related to estimated third-party settlements was not properly incorporated into the estimated liability. Also, the estimate for certain accounts payable included was not properly assessed in determining the account balance. The impact of these items resulted in an overstatement of net liabilities of approximately \$172,000 as of January 1, 2016.

The Hospital owns a majority controlling financial interest in PCPMC. Originally, the Hospital recorded its investment in PCPMC on the equity method and did not consolidate PCPMC in its financial statements. The net position of the Hospital as of January 1, 2016 was understated by approximately \$20,000 related to the non-controlling interest of the minority partners.

**PUTNAM COUNTY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016

It was not practical to determine the effects of the restatement on the 2015 consolidated change in net position or the 2015 consolidated statement of cash flows.

The following is the restatement table for correction of errors:

	January 1, 2016		
	Originally Reported	Adjustment	Restated
<b>Assets</b>			
Cash and cash equivalents	\$ 7,416,179	\$ 4,532,198	\$ 11,948,377
Patient accounts receivable	5,727,143	12,776,209	18,503,352
Other current assets	1,479,959	11,131,189	12,611,148
Assets whose use is limited	238,697	(50,228)	188,469
Capital assets	14,331,608	1,327,302	15,658,910
Other assets	1,929,292	(1,124,553)	804,739
Total assets	<u>\$ 31,122,878</u>	<u>\$ 28,592,117</u>	<u>\$ 59,714,995</u>
<b>Liabilities</b>			
Accounts payable	\$ 874,974	\$ 14,874,239	\$ 15,749,213
Accrued salaries and wages	821,018	2,531,162	3,352,180
Accrued expenses and other liabilities	680,630	12,282,687	12,963,317
Estimated third-party settlements	143,947	-0-	143,947
Line of credit	-0-	2,048,358	2,048,358
Long-term debt	13,893,062	(3,685,643)	10,207,419
Capital lease obligations	-0-	1,599,761	1,599,761
Total liabilities	<u>16,413,631</u>	<u>29,650,564</u>	<u>46,064,195</u>
<b>Net position</b>			
Net investment in capital assets	438,544	3,413,186	3,851,730
<b>Restricted</b>			
Non-expendable	-0-	20,116	20,116
Donor restricted - expendable	196,535	(50,228)	146,307
Total restricted	<u>196,535</u>	<u>(30,112)</u>	<u>166,423</u>
Unrestricted	<u>14,074,168</u>	<u>(4,441,521)</u>	<u>9,632,647</u>
Total net position	<u>14,709,247</u>	<u>(1,058,447)</u>	<u>13,650,800</u>
Total liabilities and net position	<u>\$ 31,122,878</u>	<u>\$ 28,592,117</u>	<u>\$ 59,714,995</u>



# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### 3. CHANGE IN ACCOUNTING PRINCIPLES

During 2016, the Hospital implemented GASB Statement No. 72 *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The notes to the consolidated financial statements have been updated to reflect the adoption of this statement.

During 2016, the Hospital implemented GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the accounting principles generally accepted in the United States of America (U.S. GAAP) hierarchy to two categories of authoritative U.S. GAAP and addressed the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative U.S. GAAP. The notes to the consolidated financial statements have been updated to reflect the adoption of this statement.

### 4. ASSETS WHOSE USE IS LIMITED

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Deposit Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Assets whose use is limited include:

Internally designated – Amounts transferred by the Hospital’s Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital’s buildings as authorized by IC 16-22-3-13.

Donor restricted – Amounts restricted by donors which include expendable amounts based on donor stipulations.

The composition of assets whose use is limited as of December 31, 2016 follows:

Cash and cash equivalents	
Internally designated	\$ 42,183
Donor restricted	196,197
	<hr/>
	\$ 238,380
	<hr/>

**PUTNAM COUNTY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016

---

**5. PATIENT ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Patient accounts receivable, accounts payable and accrued expenses included as current assets and liabilities consisted of the following as of December 31, 2016:

Patient accounts receivable		
Receivable from patients and third party payors	\$	5,993,614
Receivable from Medicare		3,317,894
Receivable from Medicaid		1,391,375
Receivable from long-term care operations		16,214,273
Total patient accounts receivable		<u>26,917,156</u>
Less contractual allowances		4,386,585
Less allowance for uncollectible accounts		6,051,117
Patient accounts receivable, net	\$	<u><u>16,479,454</u></u>
Accounts payable and other accrued liabilities		
Payable to suppliers and other accrued expenses	\$	21,678,889
Payable to employees (including payroll taxes and benefits)		4,575,764
Total accounts payable and other accrued liabilities	\$	<u><u>26,254,653</u></u>

**6. CAPITAL ASSETS**

The following is a progression of capital assets for 2016. The capital asset balances as of January 1, 2016 have been restated as discussed in Note 2.

	1/1/16	Additions	Retirements	Transfers	12/31/16
Land	\$ 159,363	\$ -0-	\$ -0-	\$ -0-	\$ 159,363
Land improvements	298,403	31,441	-0-	-0-	329,844
Buildings and improvements	30,814,537	787,838	-0-	1,543,294	33,145,669
Equipment	21,280,016	427,071	-0-	204,460	21,911,547
Construction in process	292,000	1,732,437	-0-	(1,747,754)	276,683
Total capital assets	<u>52,844,319</u>	<u>2,978,787</u>	<u>-0-</u>	<u>-0-</u>	<u>55,823,106</u>
Less accumulated depreciation	<u>37,185,409</u>	<u>2,285,695</u>	<u>-0-</u>	<u>-0-</u>	<u>39,471,104</u>
Capital assets, net	<u><u>\$ 15,658,910</u></u>	<u><u>\$ 693,092</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 16,352,002</u></u>

Outstanding commitments for capital assets as of December 31, 2016 were approximately \$275,000.

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### 7. LINES OF CREDIT

The Hospital had a line of credit available with First National Bank with a maximum amount of \$6,500,000 which matured in January 2017. The line of credit was at a fixed rate of interest of 4.00%. The Hospital had approximately \$6,444,000 outstanding on the line of credit as of December 31, 2016. The line of credit was secured by an indemnifying mortgage on the Hospital's main property location in Green Castle, Indiana with a net book value of \$6,500,000. The line of credit was paid in full in January 2017.

In February 2017, the Hospital opened a line of credit for \$7,000,000 that was paid in full on the maturity date in January 2018. In late January 2018, the Hospital opened another line of credit for \$7,000,000 that was paid in full on the maturity date in January 2019. Currently, the Hospital has two lines of credit, with one for \$2,000,000 at a fixed rate of 5.25% and the other for \$4,000,000 at prime plus 25 basis points. Both lines of credit expire in January 2020.

### 8. LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt as of December 31, 2016 is as follows:

Note payable #34199, due June 2025; fixed interest rate (3.95%), monthly principal and interest payments due in the amount of \$38,160; secured by property and equipment with a net book value of approximately \$3,300,000 as of December 31, 2016.	\$ 3,293,709
Note payable #33860, due June 2025; fixed interest rate (3.95%), monthly principal and interest payments due in the amount of \$34,691; secured by property and equipment with a net book value of approximately \$3,000,000 as of December 31, 2016.	2,994,280
Note payable #41806, due November 2035; fixed interest rate (4.25%), monthly principal and interest payments due in the amount of \$12,071; secured by property and equipment with a net book value of approximately \$1,900,000 as of December 31, 2016.	1,871,458
Note payable #351999, due December 2021; fixed interest rate (4.25%), monthly principal and interest payments due in the amount of \$16,078; secured by property and equipment with a net book value of approximately \$900,000 as of December 31, 2016.	866,619
Note payable #20005520747, due June 2021; fixed interest rate (3.30%), monthly principal and interest payments due in the amount of \$7,848; secured by property and equipment with a net book value of approximately \$400,000 as of December 31, 2016.	392,576
Various notes payable to banks, due through January 2033; interest rates ranging from 1.80% to 5.75%, monthly principal and interest payments ranging from \$1,202 to \$12,639; secured by property and equipment with net book values of approximately \$970,000 as of December 31, 2016.	963,411
	<u>10,382,053</u>
Less current portion	1,384,811
	<u>\$ 8,997,242</u>

---

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

The interest rate for notes payable #34199 and #33860 is reset every 60 months at prime plus 25 basis points with a floor of 3.95% and a ceiling of 7.00%. The interest rate cannot change more than 2% from the previous reset period. The most current rate reset for both notes payable was in June 2015 at 3.95% through June 2020.

The interest rate for note payable #41806 was reset every 60 months at prime plus 100 basis points with a floor of 6.00% and a ceiling of 10.00%. The interest rate cannot change more than 2% from the previous reset period. The interest rate was set in November 2015 at 6.00%. In April 2016, the terms of the note payable were amended to state a fixed interest rate of 4.25% through maturity in November 2035.

The interest rate for note payable #351999 was originally set at fixed 6.50% upon issuance in December 2011. In April 2016, the terms of the note payable were amended to state a fixed interest rate of 4.25% through maturity in December 2021.

Scheduled principal and interest repayments on long-term debt for the years succeeding December 31, 2016 are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ 1,384,811	\$ 384,835	\$ 1,384,811
2018	1,143,548	352,647	1,496,195
2019	1,194,503	303,584	1,498,087
2020	1,241,331	252,024	1,493,355
2021	1,104,755	200,825	1,305,580
2022 - 2026	3,253,133	466,429	3,719,562
2027 - 2031	567,200	157,085	724,285
2032 - 2035	492,772	34,929	527,701
	<u>\$ 10,382,053</u>	<u>\$ 2,152,358</u>	<u>\$ 12,149,576</u>

The Hospital has capital lease obligations for medical equipment through September 2021. Interest rates range from 2.00% to 3.98% with monthly interest and principal payments from \$400 to \$15,500. The cost of equipment under capital leases was approximately \$2,131,000 with accumulated depreciation of \$628,000, resulting in net book value of \$1,503,000 as of December 31, 2016.

**PUTNAM COUNTY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016

---

The following is summary of minimum lease payments for years subsequent to December 31, 2016:

Year Ending December 31,	
2017	\$ 338,854
2018	367,347
2019	310,582
2020	279,159
2021	185,675
	<hr/>
	1,481,617
Less interest	143,197
	<hr/>
	<u>\$ 1,338,420</u>

The following is a progression of long-term debt and capital lease obligations for 2016. The balances as of January 1, 2016 have been restated as discussed in Note 2.

	1/1/16	Additions	Payments	12/31/16	Current Portion
Notes payable	\$ 10,207,419	\$ 1,155,877	\$ (981,243)	\$ 10,382,053	\$ 1,384,811
Capital leases	1,599,761	96,614	(357,955)	1,338,420	338,854
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<u>\$ 11,807,180</u>	<u>\$ 1,252,491</u>	<u>\$ (1,339,198)</u>	<u>\$ 11,720,473</u>	<u>\$ 1,723,665</u>

**9. PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### Medicaid and the Indiana Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the consolidated statement of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2016, the Hospital recognized HAF Program expense of approximately \$546,000, which resulted in increased Medicaid reimbursement. The HAF assessments are included in the consolidated statement of revenues, expenses and changes in net position as operating expenses. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statement of revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Hospital Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately \$219,000 during 2016. These programs are administered by the State of Indiana, but rely on Federal funding.

### Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The following is a summary of patient service revenue for 2016:

Inpatient services	\$ 26,666,027
Outpatient services	53,681,024
Emergency room services	30,229,252
Long-term care services	<u>232,127,628</u>
Gross patient service revenue	342,703,931
Contractual allowances	176,216,910
Charity care	810,086
Provision for bad debts	<u>6,173,555</u>
Deductions from revenue	<u>183,200,551</u>
Net patient service revenue	<u><u>\$ 159,503,380</u></u>

---

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### 10. EMPLOYEE HEALTH BENEFITS

The Hospital is self-insured for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of \$70,000 per individual per policy year, with an estimated minimum attachment point of approximately \$2,300,000 (calculated as twelve times the monthly aggregate factors, times the total number of covered units) where stop loss coverage is phased in when this threshold is reached. The individual and aggregate stop/loss policy covers only health claims incurred by providers other than the Hospital. In-house claims are not covered under the individual and aggregate stop/loss. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors. Total health insurance expense for 2016 was approximately \$2,759,000. Changes in the balance of claim liabilities during 2016 are as follows:

Unpaid claims	
Beginning of year, restated	\$ 234,424
Incurred claims and changes in estimates	2,758,740
Claim payments	<u>(2,745,951)</u>
End of year	<u>\$ 247,213</u>

### 11. PENSION PLANS

The Hospital offers three pension plans to eligible employees, the Putnam County Hospital Money Purchase Pension Trust (401a Plan), the Putnam County Hospital Retirement Plan (403b Plan) and the Putnam County Hospital 457 Plan (457 Plan), collectively referred to as "the Plans". The Plans provide retirement, disability and death benefits to their participants and beneficiaries. The Plans were established by written agreements between the Hospital's Board of Trustees and the administrator of the Plans, Lincoln Financial Group (Lincoln). Information can be obtained for the Plans by contacting Lincoln.

The 401a Plan is funded through Hospital contributions only as employee contributions are not permitted. The Hospital funds the 401a Plan at 4% of eligible compensation as defined by the 401a Plan document. Expense related to the 401a Plan for 2016 was approximately \$296,000, net of forfeitures. Employees are eligible to participate in the 401a Plan after completing one year of service as defined by the 401a Plan document with enrollment dates of January 1 and July 1. Vesting begins after 3 years of participation at 20% and increases 20% annually until fully vested at 7 years.

The 403b and 457 Plans are funded by employee only contributions. Therefore, the participants are fully vested at all times in their balances.

# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### 12. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Green Castle, Indiana and grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the year ended December 31, 2016 was as follows:

	Receivables	Revenue
Medicare	31%	43%
Medicaid	13%	12%
Commercial and other payors	25%	40%
Self-pay payors	31%	5%
	<u>100%</u>	<u>100%</u>

### 13. COMMITMENTS AND CONTINGENCIES

The Hospital has various operating leases for space and equipment that expire at various times through 2019. Expenses related to these leases approximated \$359,000 for 2016. Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$10,822,000 for 2016. The long-term care leases can be terminated with 90 day notice by either the lessor or the Hospital. Annual rent expense through 2020 will approximate \$11,000,000 under these long-term care leases.

The Hospital also leases space to physicians and other medical providers on its main campus and at other ancillary locations. The lease agreements are generally one year commitments that renew automatically for another year. During 2016, the Hospital recognized approximately \$486,000 in revenue related to these leases. During 2017 and 2018, the Hospital expects to recognize approximately \$500,000 annually in revenue related to these leases.



# PUTNAM COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

---

### 14. BLENDED COMPONENT UNIT

The Hospital's consolidated financial statements include the accounts of its blended component unit, PCPMC. Below is condensed financial information for PCPMC for 2016.

#### Balance sheet

Assets	
Cash	\$ 65,982
Accounts receivable, net	131,612
Total assets	<u>\$ 197,594</u>
Liabilities	
Accounts payable	\$ 2,571
Due to Hospital	27,018
Total liabilities	<u>29,589</u>
Net position	<u>168,005</u>
Total liabilities and net position	<u>\$ 197,594</u>

#### Statement of revenues, expenses and changes in net position

Revenues	
Net patient service revenue	\$ 886,344
Expenses	
Salaries and wages	355,483
Professional fees and contract services	183,633
Other	220,277
Total expenses	<u>759,393</u>
Change in net position	126,951
Net position	
Beginning of year	<u>41,054</u>
End of year	<u>\$ 168,005</u>

#### Statement of cash flows

Net cash flows from	
Operating activities	\$ 126,951
Capital and related financing activities	<u>(75,811)</u>
Change in cash and cash equivalents	51,140
Cash	
Beginning of year	<u>14,842</u>
End of year	<u>\$ 65,982</u>

More detailed financial information for PCPMC may be obtained through contacting the accounting department of the Hospital.

---